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INFO RUCNCIS/CIS COLLECTIVE PRIORITY

RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY

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RHEHNSC/NSC WASHDC PRIORITY

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C O N F I D E N T I A L MOSCOW 000116

SIPDIS

SIPDIS

DEPT FOR EUR/RUS, FOR EEB/ESC/IEC GALLOGLY AND WRIGHT
NSC FOR WARLICK

EUR/CARC, SCA (GALLAGHER, SUMAR)

DOE FOR HARBERT, HEGBORG, EKIMOFF

DOC FOR 4231/IEP/EUR/JBROUGHIER

E.O. 12958: DECL: 12/03/2017

TAGS: EPET ENRG ECON PREL RS

SUBJECT: SERBIAN EMBASSY SAYS SOUTH STREAM ROUTE KEY TO
GAZPROM PURCHASE OF NIS

REF: A. SOFIA 00033

1B. BELGRADE 0026

Classified By: Acting Econ MC Kathleen Doherty for Reasons 1.4 (b/d)

SOUTH STREAM ROUTE IS KEY

11. (C) In a January 16th meeting with Emboffs, Serbian Embassy Counselor Boris Sekulic said the Serbian government is ready to accept a Gazprom offer to buy state-owned oil and gas monopoly NIS (ref B) if Russia guarantees that the proposed South Stream gas pipeline transits Serbia. Sekulic highlighted this point as the most important in negotiations, from the Serbian point of view. Describing the economic importance of South Stream, Sekulic said the GOS estimates transit tariffs could be worth up to \$200 million per year to Serbia. Sekulic suggested that without an agreement on South Stream, NIS would be sold through a tender, but he did not think that would result in an offer substantially higher than Gazprom's. He said Gazprom's offer includes 400 million euros in cash, 500 million euros of investment over several years, plus assumption of 200 million euros of NIS debt. Press reports indicate Gazprom has raised its cash offer to 500 million euros.

12. (C) According to Sekulic, if Russia could deliver on the South Stream route, even President Tadic, who supports an open tender for NIS, would lend his support to the deal with Gazprom. He was hopeful that Putin's upcoming visit to Sofia (ref A) would include an agreement on South Stream being routed through Serbia.

13. (C) Sekulic downplayed the role of politics in the deal, emphasizing instead the economic aspects. Benefits to Serbia include South Stream transit fees, Gazprom investment in Serbia, a gas storage facility to be built by Gazprom in Serbia, and assistance with switching power plants from coal to gas. In addition, there would be the strategic benefits a major pipeline would bring to the country, which he said is "100% dependent" on Russian oil and gas through Romania. Political considerations, however, cannot be ignored. According to Sekulic, President Tadic was planning to come to Russia to discuss the NIS deal with President Putin, but that Russia turned down the request in order to avoid perceptions

of political interference before Serbia's upcoming elections.

Sekulic added that Gazprom is interested in South Stream going through Serbia in order to include "non-EU" countries as part of the transit route.

COMMENT

¶4. (C) Gazprom's interest in controlling Serbia's oil and gas processing and distribution facilities is part of its clear strategy to expand westward. While minority stakes in developed and well-regulated EU countries should not be of great concern, control of the monopoly energy company in a small and less-developed country like Serbia may be more problematic, justifying recent reports of EU anxiety over the deal. The outcome of South Stream negotiations during Putin's Bulgaria visit should clarify whether Gazprom's package deal with Serbia has any teeth. End comment.

BURNS